

**CITY OF CLAWSON
Oakland County, Michigan**

AUDITED FINANCIAL REPORT

**For the Fiscal Year Ended
June 30, 2017**

CITY OF CLAWSON
For the Year Ended June 30, 2017

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For the Year Ended June 30, 2017

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FINANCIAL SECTION

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Independent Auditor's Report

December 20, 2017

To the Honorable Mayor and Members of the City Council
City of Clawson, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clawson, Michigan, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Mayor and Members of the City Council
City of Clawson, Michigan

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clawson, Michigan, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

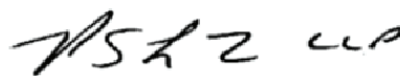
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the defined benefit pension plan information, and the budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clawson, Michigan's basic financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling information directly to underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Respectfully,



PSLZ LLP
Certified Public Accountants
Plymouth, Michigan



City of Clawson

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Management's Discussion and Analysis

As management of the City of Clawson, we offer readers of the City of Clawson's financial statements this narrative overview and analysis of the financial activities of the City of Clawson for the fiscal year ended June 30, 2017.

Financial Highlights

- The assets of the City of Clawson's Governmental Activities were exceeded by its liabilities at the close of the most recent fiscal year by \$4,103,463-deficit in net position-while Business Type Activities had net position of \$10,341,381.
- As of the close of the current fiscal year, the City of Clawson's governmental funds reported combined ending fund balances of \$2,602,499, a decrease of \$343,352 in comparison with the prior year. Approximately 68 percent of this amount, \$1,779,037 is available for spending at the government's discretion (*unrestricted fund balance*).
- The City of Clawson's total contractual and bonded debt decreased by \$2,050,054 during the current fiscal year, due to debt repayments and refunding of bond issue.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Clawson's basic financial statements. The City of Clawson's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Clawson's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Clawson's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Clawson is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused, leave time).

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Both of the government-wide financial statements distinguish functions of the City of Clawson that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Clawson include general government, public safety, highways and streets, sanitation, and culture and recreation. The business-type activities of the City of Clawson include the water and sewer system and senior citizen housing.

The government-wide financial statements include not only the City of Clawson itself (known as the *primary government*), but also a legally separate downtown development authority for which the City of Clawson is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 10-12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Clawson, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Clawson can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Clawson maintains 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, 2014 Capital Projects Fund, and the G.O. bond debt service fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the annual appropriated budget.

Proprietary funds. The City of Clawson maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Clawson used enterprise funds to account for its water and sewer system and for its senior citizen housing. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Clawson's various functions. The City of Clawson uses an internal service fund to account for its fleet of vehicles. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate

information for the water and sewer system and for senior citizen housing, the first of which is considered to be a major fund of the City of Clawson.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Clawson's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Clawson's progress in funding its obligation to provide pension benefits to its employees. This information can be found on pages 59-62 of this report.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 63-66 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Clawson, the combined net position was \$5,607,922 at the close of the most recent fiscal year.

By far the largest portion of the City of Clawson's net position (\$18,202,131) reflects its investment in capital assets (e.g., land, buildings, vehicles, office equipment, furniture, and other equipment); less any related debt used to acquire those assets that are still outstanding. The City of Clawson used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Clawson's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay these debts must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF CLAWSON						
Net Position						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 3,934,171	\$ 4,051,809	\$ 2,840,239	\$ 2,662,345	\$ 6,774,410	\$ 6,714,154
Capital Assets	32,550,275	33,431,078	14,328,457	14,596,068	46,878,732	48,027,146
Total Assets	36,484,446	37,482,887	17,168,696	17,258,413	53,653,142	54,741,300
Deferred Outflows	1,862,175	1,999,009	-	-	1,862,175	1,999,009
Long-term liabilities	40,552,181	41,990,333	6,446,226	7,127,271	46,998,407	49,117,604
Other liabilities	1,256,167	1,000,314	381,089	320,427	1,637,256	1,320,741
Total Liabilities	41,808,348	42,990,647	6,827,315	7,447,698	48,635,663	50,438,345
Deferred Inflows	641,736	694,042	-	-	641,736	694,042
Net Position:						
Net Investment						
in capital assets	10,132,537	9,595,606	8,069,594	7,647,579	18,202,131	17,243,185
Restricted	673,599	774,164	527,130	527,951	1,200,729	1,302,115
Unrestricted (Deficit)	(14,909,599)	(14,572,563)	1,744,657	1,635,185	(13,164,942)	(12,937,378)
Total Net Position	\$ (4,103,463)	\$ (4,202,793)	\$ 10,341,381	\$ 9,810,715	\$ 6,237,918	\$ 5,607,922

During the current fiscal year, net position increased by \$629,996, as revenues remained consistent with the prior year and expenditures increased modestly (.4%).

Governmental activities. Governmental activities increased the City of Clawson's net position by \$114,507. Revenues increased by 6.7% while expenses increased by .1%.

City of Clawson – Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Program Revenues:						
Charges for Services	\$ 1,202,230	\$ 1,258,824	\$ 4,855,572	\$ 4,703,454	\$ 6,057,802	\$ 5,962,278
Operating Grants & Contrib.	909,935	930,478	-	-	909,935	930,478
Capital Grants & Contrib.	32,242	90,233	-	-	32,242	90,233
General Revenues:						
Property Taxes	8,288,673	8,276,326	646,423	642,511	8,935,096	8,918,837
State Shared Revenues	1,161,780	1,173,161	-	-	1,161,780	1,173,161
Franchise Fees	240,544	239,578	-	-	240,544	239,578
Investment Earnings	23,938	52,553	2,002	1,136	25,940	53,689
Gain(Loss) on Sale of Assets	-	5,000	-	-	-	5,000
Total Revenues	<u>11,859,342</u>	<u>12,026,153</u>	<u>5,503,997</u>	<u>5,347,101</u>	<u>17,363,339</u>	<u>17,373,254</u>
Program Expenses:						
General Government	3,784,932	3,839,382	-	-	3,784,932	3,839,382
Public Safety	2,540,603	2,936,368	-	-	2,540,603	2,936,368
Public Works	2,491,660	2,353,518	-	-	2,491,660	2,353,518
Sanitation	1,018,396	933,279	-	-	1,018,396	933,279
Health and Welfare	149,794	143,296	-	-	149,794	143,296
Recreation and Cultural	1,160,802	1,058,616	-	-	1,160,802	1,058,616
Interest on Long-Term Debt	702,075	742,187	-	-	702,075	742,187
Water and Sewer	-	-	4,883,293	4,677,304	4,883,293	4,677,304
Senior Housing	-	-	60,038	47,929	60,038	47,929
Total Expenses	<u>11,848,262</u>	<u>12,006,646</u>	<u>4,943,331</u>	<u>4,725,233</u>	<u>16,791,593</u>	<u>16,731,879</u>
Change in Net Position before Transfers	11,080	19,507	560,666	621,868	571,746	641,375
Transfers	30,000	30,000	(30,000)	(30,000)	-	-
Transfers-Component Unit	58,250	65,000	-	-	58,250	65,000
Change in Net Position	<u>\$ 99,330</u>	<u>\$ 114,507</u>	<u>\$ 530,666</u>	<u>\$ 591,868</u>	<u>\$ 629,996</u>	<u>\$ 706,375</u>

Business-type activities. Business-type activities increased the City of Clawson's net position by \$530,666, as compared to a \$591,868 increase in the prior year. Key elements of this increase are as follows:

- Clawson increased the water and sewer consumption rate for the year and we had a slight increase in the combined fixed rate. The SRF sewer rehabilitation and repair charge is a fixed cost charged and repaid through the water and sewer system. The consumption rate for water went up slightly and the sewer rate also increased during the fiscal year. The fixed rate costs went up slightly due to an increase in fixed system costs.
- The average monthly charge to a water and sewer residential customer, were increased during the year by 5.6%.

Financial Analysis of the Government's Funds

As noted earlier, the City of Clawson used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Clawson's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Clawson's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Clawson's governmental funds reported combined ending fund balances of \$2,602,499, a decrease of \$343,352 over the prior year, primarily due to spending down construction funds in the City's 2014 Capital Improvement Fund. The general fund is the chief operating fund of the City of Clawson. At the end of the current fiscal year, unrestricted fund balance of the general fund was \$1,779,037, while total fund balance is \$2,019,079. As a measure of the general fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents 23 percent of total general fund expenditures, while total fund balance represents 26 percent of that same amount.

The fund balance of the City of Clawson's general fund decreased by \$203,818 during the current fiscal year. Key factors are as follows:

- Planning department expenditures increased \$40,672 over the prior year due to master plan updates.
- Police department expenditures reflected an increase of \$107,811 primarily in wages.
- Fire department expenditures increased \$55,994 due to increased pension contributions.

Proprietary funds. The City of Clawson's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the year amounted to \$1,618,989 and \$125,668 for the Senior Housing Fund. The total (decline)/growth in net position for both funds were \$541,856 and \$(11,190), respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Clawson's business-type activities.

General Fund Budgetary Highlights

During fiscal year 2017, the General Fund original budgeted revenues were increased by \$19,000 for building permits and \$85,000 to reflect a property sale. General Fund original budgeted expenditures were increased by \$62,000 for retiree health insurance and \$114,750 for capital outlay.

Capital Asset and Debt Administration

Capital assets. The City of Clawson's investment in capital assets for its governmental and business type activities as of June 30, 2017, amounts to \$39,630,453 in tangible assets, and \$7,248,279 in intangible assets. (net of accumulated depreciation and amortization). This investment in capital assets includes land, buildings and system improvements, vehicles, equipment, park facilities, intangible assets and streets.

Major capital asset events during the current fiscal year included the following:

- Building Upgrades \$85,923
- Park Improvements \$48,790
- Police Vehicles \$56,795
- Street Lighting Improvements \$52,150

Long-term debt. At the end of the current fiscal year, the City of Clawson had total bonded and contractual debt outstanding of \$28,184,666. All of the City of Clawson's debt represents general obligation debt backed by the full faith and credit of the City of Clawson. Additional information on the City of Clawson's long-term debt can be found in note III. E. on pages 35-36 of this report.

Economic Factors and Next Year's Budgets and Rates

Even with a deficit in the last fiscal year Clawson still maintains a healthy surplus in the General Fund of \$2,019,079.35. We have a slight budget deficit in 2017-2018 due to capital purchases which are planned in the 2017-2018 fiscal year. In 2016-2017, we began the first of several years of significant increases in our defined benefit pension payments. Since we are closed to new hires and have been for many years, we must now contribute higher amounts to reduce our unfunded accrued liability. Our legacy costs are eliminated for many current and future employees, but we must pay the added cost to adequately fund our pension plan for those that are receiving the defined benefit pension payments. These increased payments would leave us in a difficult position to continue our capital purchase plan over the next five years. In order to avoid this scenario, we are currently having a report prepared by our bond advisor to petition the State of Michigan to allow us to sell pension obligation bonds. Our retirement system MERS has reviewed our situation and agreed to grant a 15-year amortization schedule on the balance of our unfunded accrued liability. This is the first step in petitioning the State of Michigan to issue bonds to fix our annual payment. Rather than an accelerated payment that we are currently committed to, a fixed bond payment would allow us to budget for operations and capital purchases with our limited revenue increases each year.

Our health care costs went up in the past year. The claims experience was higher for both active employees and our pre-65 age retirees. The health care costs exceeded the original budget amounts by \$77,000 in the last fiscal year. That is due to the expected budget amounts being adjusted downward based upon the first two year's actual experience. Now that we have a three year average, the budgeted amounts will be adjusted upward to provide a more accurate picture. The good news is that our partially self-insured plans are still saving us significantly over the fully insured plans of years past, but we did finally have a high cost claims year. The best news is that our legacy costs will slowly disappear since our retiree health care plans are also no longer available to new hires after 2004. We are currently paying retiree health care costs using the pay-as-you-go-method. Our OPEB liability remains in excess of \$14 million, but as bad as that sounds, those costs will drop in future years as less people are eligible for coverage and the number of those covered will decrease.

Our combined operating millage rates will allow us to continue to provide the services that our residents have grown accustomed to. The Headlee Amendment rolls back our millage rate to act as an inflationary barrier, while our assessments are limited by state law to inflationary gains. It is

unfortunate that the gains in home values only allow for a minor increase in property tax revenue due to the low rate of inflation. As home values continue to rise, we continue to see small increases in property tax revenues. These small increases will only offset small increases in expenses. Our budget for 2017-2018 anticipates a \$88,170 deficit fund balance. In 2017-2018, we will levy 2.8431 mills for rubbish and 14.2165 total mills for general operating purposes. We had to roll back our millage rates due to the Headlee Amendment.

Although our total debt burden remains high, we remain diligent in fixing the problems in Clawson that are long overdue for repair. We continue to get closer to the date that we will start to see some of this debt paid off beginning in the year 2020. The tremendous support of this community remains the catalyst to fixing the problems that need fixing.

Within a solid financial forecast, we have been able to make increases in wages near the rate of inflation each year. A higher cost year for health care will make it difficult to increase wages in future years beyond the rate of inflation. Our employees continue to take on additional costs for health care with high deductible plans and partial self-insurance. This has helped us tremendously in our annual budget while keeping the costs manageable to sustain us for the future. We will continue to adjust our health care plans to provide quality health care, while keeping the costs sustainable into the future for both our active and our eligible retired employees.

The pension obligation bonds are pivotal to our next ten year forecast. We will continue to look for cost-saving ideas wherever possible. A big part of our current savings is from a 10% wage reduction by all of our full-time employees in 2011. In order to continue those savings, we plan to maintain a 36-hour work week, which continues to provide significant cost savings as it has over the past six years.

We plan to continue in the 2017-2018 fiscal year our infrastructure improvements using both our annual receipts and some of our reserves. We plan to purchase a new fire pumper vehicle that will replace a 22-year old pumper through Act 99 financing in 2018. This will now bring our entire fire fleet up to NFPA Standards. Our oldest fire vehicle will be 15 years old and will not need to be replaced for at least five more years. This leaves us in excellent position for fire equipment replacement.

I am pleased to report that our Sidewalk Bond was approved by the voters in November of 2017. We will sell bonds in two installments totaling \$2.125 million to complete the sidewalk replacement program throughout the entire City.

I would like to thank everyone in Clawson for the continued support of what we are accomplishing. This is a wonderful and supportive community that truly fits our motto, "The little City with a BIG heart."

Requests for Information

This financial report is designed to provide a general overview of the City of Clawson's finances for all those with an interest in the government's finances. Questions should be addressed to the Office of the City Manager/Finance Director, City of Clawson, 425 N. Main Street, Clawson, Michigan 48017-1555.

BASIC FINANCIAL STATEMENTS

CITY OF CLAWSON
Statement of Net Position
June 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Dev Authority
ASSETS				
Cash and Cash Equivalents	\$ 3,569,036	\$ 846,226	\$ 4,415,262	\$ 49,274
Receivables (net of Allowance for Uncollectible)	135,127	1,278,101	1,413,228	6,508
Due from Other Governmental Units	79,350	-	79,350	-
Due from Primary Government	-	-	-	6,860
Advance to Component Unit	60,000	-	60,000	-
Prepaid Expenditures	90,658	6,500	97,158	-
Restricted Cash	-	709,412	709,412	-
Capital Assets (net of Accumulated Depreciation)	32,550,275	7,080,178	39,630,453	-
Intangible Assets (net of Accumulated Amortization)	-	7,248,279	7,248,279	-
Total Assets	<u>36,484,446</u>	<u>17,168,696</u>	<u>53,653,142</u>	<u>62,642</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferral related to Pension	1,862,175	-	1,862,175	-
LIABILITIES				
Accounts Payable	532,519	318,115	850,634	1,470
Accrued Liabilities	284,114	62,974	347,088	846
Due to Component Unit	6,860	-	6,860	-
Deposits	432,674	-	432,674	-
Advance from Primary Government	-	-	-	60,000
Noncurrent Liabilities:				
Other Post Employment Benefits (OPEB)	3,796,609	-	3,796,609	-
Net Pension Liability	14,554,404	-	14,554,404	-
Compensated Absences	415,365	47,363	462,728	-
Due within One Year	1,509,022	702,518	2,211,540	-
Due in More than One Year	20,276,781	5,696,345	25,973,126	-
Total Liabilities	<u>41,808,348</u>	<u>6,827,315</u>	<u>48,635,663</u>	<u>62,316</u>
DEFERRED INFLOW OF RESOURCES				
Unearned Revenue	9,801	-	9,801	-
Unamortized Bond Premium	631,935	-	631,935	-
Total Deferred Inflow of Resources	<u>641,736</u>	<u>-</u>	<u>641,736</u>	<u>-</u>
NET POSITION				
Net Investment in Capital Assets	10,132,537	8,069,594	18,202,131	-
Restricted – Capital Projects	118,560	-	118,560	-
Restricted – Special Revenue and Other	423,253	-	423,253	-
Restricted – Debt Service	131,786	527,130	658,916	-
Unrestricted (Deficit)	(14,909,599)	1,744,657	(13,164,942)	326
Total Net Position (Deficit)	<u>\$ (4,103,463)</u>	<u>\$ 10,341,381</u>	<u>\$ 6,237,918</u>	<u>\$ 326</u>

CITY OF CLAWSON
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,784,932	\$ 427,695	\$ 28,909	\$ -
Public Safety	2,540,603	469,223	28,971	-
Public Works	2,491,660	97,180	810,189	-
Sanitation	1,018,396	16,062	21,073	-
Health and Welfare	149,794	-	-	-
Recreation and Cultural	1,160,802	192,070	20,793	32,242
Interest on Long-Term Debt	702,075	-	-	-
Total Governmental Activities	<u>11,848,262</u>	<u>1,202,230</u>	<u>909,935</u>	<u>32,242</u>
Business-type Activities:				
Water and Sewer	4,883,293	4,776,817	-	-
Senior Citizen Housing	60,038	78,755	-	-
Total Business-type Activities	<u>4,943,331</u>	<u>4,855,572</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 16,791,593</u>	<u>\$ 6,057,802</u>	<u>\$ 909,935</u>	<u>\$ 32,242</u>
Component Unit:				
Downtown Development Authority	<u>\$ 122,626</u>	<u>\$ -</u>	<u>\$ 12,068</u>	<u>\$ -</u>

General Revenues:
Property Taxes
State Shared Revenue
Cable Franchise
Unrestricted Investment Earnings
Transfers Component Unit
Transfers
Total General Revenues and Transfers

Change in Net Position
Net Position (Deficit) – Beginning

Net Position (Deficit) – Ending

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (3,328,328)	\$ -	\$ (3,328,328)	\$ -
(2,042,409)	-	(2,042,409)	-
(1,584,291)	-	(1,584,291)	-
(981,261)	-	(981,261)	-
(149,794)	-	(149,794)	-
(915,697)	-	(915,697)	-
(702,075)	-	(702,075)	-
<u>(9,703,855)</u>	<u>-</u>	<u>(9,703,855)</u>	<u>-</u>
-	(106,476)	(106,476)	-
-	18,717	18,717	-
<u>-</u>	<u>(87,759)</u>	<u>(87,759)</u>	<u>-</u>
(9,703,855)	(87,759)	(9,791,614)	-
-	-	-	(110,558)
8,288,673	646,423	8,935,096	140,741
1,161,780	-	1,161,780	-
240,544	-	240,544	-
23,938	2,002	25,940	86
58,250	-	58,250	(58,250)
30,000	(30,000)	-	-
<u>9,803,185</u>	<u>618,425</u>	<u>10,421,610</u>	<u>82,577</u>
99,330	530,666	629,996	(27,981)
<u>(4,202,793)</u>	<u>9,810,715</u>	<u>5,607,922</u>	<u>28,307</u>
<u>\$ (4,103,463)</u>	<u>\$ 10,341,381</u>	<u>\$ 6,237,918</u>	<u>\$ 326</u>

CITY OF CLAWSON
Balance Sheet
Governmental Funds
June 30, 2017

<u>ASSETS</u>	<u>General</u>	<u>G.O. Bond Debt Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 2,641,466	\$ 101,691	\$ 668,113	\$ 3,411,270
Receivables (net of Allowance for Uncollectible)	125,314	-	9,813	135,127
Due from Other Governmental Units	-	-	79,350	79,350
Advance to Component Unit	60,000	-	-	60,000
Prepaid Expenditures	67,063	-	22,800	89,863
Total Assets	<u>\$ 2,893,843</u>	<u>\$ 101,691</u>	<u>\$ 780,076</u>	<u>\$ 3,775,610</u>

LIABILITIES AND FUND BALANCE

Liabilities:				
Accounts Payable	\$ 245,158	\$ -	\$ 274,798	\$ 519,956
Accrued and Other Liabilities	180,271	-	23,549	203,820
Deposits	432,674	-	-	432,674
Due to Component Unit	6,860	-	-	6,860
Unearned Revenue	9,801	-	-	9,801
Total Liabilities	<u>874,764</u>	<u>-</u>	<u>298,347</u>	<u>1,173,111</u>

Fund Balance:

Non Spendable:

Prepaid and Other	67,063	-	22,800	89,863
Long-Term Advances	60,000	-	-	60,000

Restricted:

Debt Service	-	101,691	30,095	131,786
Capital Projects	111,042	-	7,518	118,560
Drug Law Enforcement	1,937	-	-	1,937
Special Revenue Funds	-	-	421,316	421,316
Unassigned	1,779,037	-	-	1,779,037
Total Fund Balance	<u>2,019,079</u>	<u>101,691</u>	<u>481,729</u>	<u>2,602,499</u>

Total Liabilities and Fund Balance	<u>\$ 2,893,843</u>	<u>\$ 101,691</u>	<u>\$ 780,076</u>	
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Amounts reported for governmental activities in the statement of net position are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	31,673,472
Other postemployment benefit obligations are not reported in the funds.	(3,796,609)
Internal Service Funds are used by management to charge the costs of motor pool to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	560,871
IBNR Liabilities are not reported in the funds.	(73,000)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonded Debt and Act 99 Installment Notes Payable	(21,347,883)
Unamortized Bond Premium	(631,935)
Net Pension Liability:	
MERS Defined Benefit Plan	\$ (14,417,115)
Fire Department Defined Benefit Plan	(137,289)
Deferred Outflows of Resources-Pension	1,862,175
Compensated Absences	(398,649)
	<u>\$ (4,103,463)</u>

CITY OF CLAWSON
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2017

	<u>General</u>	<u>G.O. Bond Debt Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Revenues:</u>				
Property Taxes	\$ 4,709,997	\$ 1,453,505	\$ 1,936,274	\$ 8,099,776
Property Tax Administration Fee	188,897	-	-	188,897
Penalties and Interest	30,556	-	-	30,556
Licenses and Permits	218,744	-	-	218,744
Intergovernmental:				
Federal, State and Local	1,216,404	-	851,955	2,068,359
Charges for Services	506,515	-	-	506,515
Fines and Forfeitures	190,364	-	-	190,364
Franchise Fees	240,544	-	-	240,544
Interest	22,092	550	1,171	23,813
Other	165,643	-	126,006	291,649
Total Revenues	<u>7,489,756</u>	<u>1,454,055</u>	<u>2,915,406</u>	<u>11,859,217</u>
<u>Expenditures:</u>				
Current:				
General Government	1,126,201	-	-	1,126,201
Public Safety	2,643,081	-	-	2,643,081
Public Works	636,261	-	1,054,636	1,690,897
Sanitation	-	-	1,018,396	1,018,396
Health and Welfare	149,794	-	-	149,794
Recreation and Cultural	522,928	-	451,220	974,148
Other Functions	2,043,337	-	-	2,043,337
Debt Service:				
Principal	211,692	880,000	295,000	1,386,692
Interest and Other Charges	69,402	577,085	166,613	813,100
Capital Outlay	306,532	-	73,641	380,173
Total Expenditures	<u>7,709,228</u>	<u>1,457,085</u>	<u>3,059,506</u>	<u>12,225,819</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(219,472)</u>	<u>(3,030)</u>	<u>(144,100)</u>	<u>(366,602)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	30,000	-	82,596	112,596
Transfers Out	(7,596)	-	(75,000)	(82,596)
Transfers Out-Component Unit	(6,750)	-	-	(6,750)
Total Other Financing Sources (Uses)	<u>15,654</u>	<u>-</u>	<u>7,596</u>	<u>23,250</u>
Net Change in Fund Balance	(203,818)	(3,030)	(136,504)	(343,352)
Fund Balance – Beginning	<u>2,222,897</u>	<u>104,721</u>	<u>618,233</u>	<u>2,945,851</u>
Fund Balance – Ending	<u>\$ 2,019,079</u>	<u>\$ 101,691</u>	<u>\$ 481,729</u>	<u>\$ 2,602,499</u>

CITY OF CLAWSON
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$	(343,352)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period:</p>		
Capital Outlay Expenditures	\$	348,444
Depreciation Expense		<u>(1,344,372)</u>
		(995,928)
<p>The net increase in other post employment benefit obligations (OPEB) and IBNR does not require current resources and are not included in governmental funds.</p>		
		(498,100)
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:</p>		
Principal Payments on Long Term Bonds and Notes	\$	1,386,689
Principal Payments on Long Term Bonds-DDA		65,000
Amortization of Bond Premium		52,306
Decrease (Increase) in Compensated Absences		<u>51,063</u>
		1,555,058
<p>Changes in Net Pension Liability Do Not Require Current Resources:</p>		
(Increase) Decrease in Net Pension Liability-MERS Defined Benefit Plan		530,337
(Increase) Decrease in Net Pension Liability-Fire Department Defined Benefit Plan		(158,243)
<p>Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue(loss) of certain activities of internal service funds is reported with governmental activities.</p>		
		<u>9,558</u>
Change in net position in governmental activities	\$	<u><u>99,330</u></u>

CITY OF CLAWSON
Balance Sheet
Proprietary Funds
June 30, 2017

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities – Internal Service Fund</u>
	<u>Water & Sewer</u>	<u>Other Nonmajor Senior Citizens Housing</u>	<u>Total</u>	
<u>ASSETS</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 719,726	\$ 126,500	\$ 846,226	\$ 157,766
Accounts Receivable	1,275,801	2,300	1,278,101	-
Prepaid Expenses	6,500	-	6,500	795
Total Current Assets	<u>2,002,027</u>	<u>128,800</u>	<u>2,130,827</u>	<u>158,561</u>
Non Current Assets:				
Restricted Cash and Cash Equivalents				
Revenue Bond Covenant Accounts	709,412	-	709,412	-
Total Restricted Assets	<u>709,412</u>	<u>-</u>	<u>709,412</u>	<u>-</u>
Property, Plant and Equipment:				
Land	-	54,028	54,028	-
Land Improvements	-	59,512	59,512	-
Buildings	52,932	453,278	506,210	-
Infrastructure	11,432,331	-	11,432,331	-
Machinery and Equipment	346,070	73,365	419,435	2,611,484
Accumulated Depreciation	(5,020,493)	(370,845)	(5,391,338)	(1,734,681)
Net Property, Plant and Equipment	<u>6,810,840</u>	<u>269,338</u>	<u>7,080,178</u>	<u>876,803</u>
Intangible Assets (net of Accumulated Amortization)	<u>7,248,279</u>	<u>-</u>	<u>7,248,279</u>	<u>-</u>
Total Assets	<u>\$ 16,770,558</u>	<u>\$ 398,138</u>	<u>\$ 17,168,696</u>	<u>\$ 1,035,364</u>
<u>LIABILITIES AND NET POSITION</u>				
Current Liabilities:				
Accounts Payable	\$ 314,983	\$ 3,132	\$ 318,115	\$ 12,563
Accrued Liabilities	20,692	-	20,692	7,294
Contracts Payable	144,922	-	144,922	120,084
Bonds Payable	417,596	-	417,596	-
Total Current Liabilities	<u>898,193</u>	<u>3,132</u>	<u>901,325</u>	<u>139,941</u>
Current Liabilities Payable from Restricted Assets:				
Revenue Bonds Payable	140,000	-	140,000	-
Accrued Interest Payable	42,282	-	42,282	-
Total Current Liabilities Payable from Restricted Assets	<u>182,282</u>	<u>-</u>	<u>182,282</u>	<u>-</u>
Long-Term Liabilities:				
Compensated Absences Payable	47,363	-	47,363	16,716
Contracts Payable	464,389	-	464,389	317,836
Revenue Bonds payable	2,539,836	-	2,539,836	-
Bonds Payable	2,692,120	-	2,692,120	-
Total Long-Term Liabilities	<u>5,743,708</u>	<u>-</u>	<u>5,743,708</u>	<u>334,552</u>
Net Position:				
Net Investment in Capital Assets	7,800,256	269,338	8,069,594	438,883
Restricted for Debt Service	527,130	-	527,130	-
Unrestricted	1,618,989	125,668	1,744,657	121,988
Total Net Position	<u>9,946,375</u>	<u>395,006</u>	<u>10,341,381</u>	<u>560,871</u>
Total Liabilities and Net Position	<u>\$ 16,770,558</u>	<u>\$ 398,138</u>	<u>\$ 17,168,696</u>	<u>\$ 1,035,364</u>

CITY OF CLAWSON
Statement of Revenues, Expenses and Changes in Position
Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities – Internal Service Fund
	Water & Sewer	Other Nonmajor Senior Citizens Housing	Total	
<u>Operating Revenues:</u>				
Water Charges for Services	\$ 1,453,870	\$ -	\$ 1,453,870	\$ -
Water Treatment Charges for Services	3,322,947	-	3,322,947	-
Rental Income	-	77,432	77,432	413,672
Miscellaneous	-	1,323	1,323	-
Total Operating Revenues	<u>4,776,817</u>	<u>78,755</u>	<u>4,855,572</u>	<u>413,672</u>
<u>Operating Expenses:</u>				
Water Department	1,340,918	-	1,340,918	-
Sewer Department	2,938,595	-	2,938,595	-
Senior Citizens Housing	-	44,331	44,331	-
Motor Pool	-	-	-	314,808
Depreciation and Amortization	411,761	15,707	427,468	83,153
Total Operating Expenses	<u>4,691,274</u>	<u>60,038</u>	<u>4,751,312</u>	<u>397,961</u>
Operating Income (Loss)	<u>85,543</u>	<u>18,717</u>	<u>104,260</u>	<u>15,711</u>
<u>Non-Operating Revenues (Expenses):</u>				
Interest Earned	1,909	93	2,002	125
Property Taxes Levied for Debt Service	646,423	-	646,423	-
Interest Expense	(192,019)	-	(192,019)	(6,278)
Total Non-Operating Revenues (Expenses)	<u>456,313</u>	<u>93</u>	<u>456,406</u>	<u>(6,153)</u>
Income (Loss) before Operating Transfers	541,856	18,810	560,666	9,558
<u>Operating Transfers:</u>				
Operating Transfers Out	-	(30,000)	(30,000)	-
Net Income (Loss)	541,856	(11,190)	530,666	9,558
Net Position – Beginning	<u>9,404,519</u>	<u>406,196</u>	<u>9,810,715</u>	<u>551,313</u>
Net Position – Ending	<u>\$ 9,946,375</u>	<u>\$ 395,006</u>	<u>\$ 10,341,381</u>	<u>\$ 560,871</u>

CITY OF CLAWSON
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities – Enterprise Funds			Governmental Activities – Internal Service Fund
	Water & Sewer	Other Nonmajor Senior Citizens Housing	Total	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Receipts from Customers and Users	\$ 4,874,129	\$ 78,133	\$ 4,952,262	\$ 412,970
Payments to Suppliers	(4,246,191)	(42,020)	(4,288,211)	(194,311)
Payments to Employees	3,261	-	3,261	(118,461)
Net Cash Provided (Used) by Operating Activities	<u>631,199</u>	<u>36,113</u>	<u>667,312</u>	<u>100,198</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Property Taxes Levied for Debt Service	646,423	-	646,423	-
Transfer to Other Funds	-	(30,000)	(30,000)	-
Net Cash Provided by (Used) Non-Capital Financing Activities	<u>646,423</u>	<u>(30,000)</u>	<u>616,423</u>	<u>-</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Purchases of Capital Assets	(156,899)	(2,957)	(159,856)	(198,278)
Principal Paid on Capital Debt	(684,626)	-	(684,626)	(86,739)
Proceeds of Long Term Borrowing	-	-	-	173,000
Interest Paid on Capital Debt	(167,330)	-	(167,330)	(6,278)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,008,855)</u>	<u>(2,957)</u>	<u>(1,011,812)</u>	<u>(118,295)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest Earned	1,909	93	2,002	125
Net Increase (Decrease) in Cash and Cash Equivalents	270,676	3,249	273,925	(17,972)
Cash and Cash Equivalents – Beginning	1,158,462	123,251	1,281,713	175,738
Cash and Cash Equivalents – Ending	<u>\$ 1,429,138</u>	<u>\$ 126,500</u>	<u>\$ 1,555,638</u>	<u>\$ 157,766</u>
Presented as:				
Unrestricted Cash	\$ 719,726	\$ 126,500	\$ 846,226	\$ 157,766
Restricted Cash	709,412	-	709,412	-
	<u>\$ 1,429,138</u>	<u>\$ 126,500</u>	<u>\$ 1,555,638</u>	<u>\$ 157,766</u>

Reconciliation of Operating Income to Net Cash

<u>Provided (Used) by Operating Activities:</u>				
Operating Income (Loss)	\$ 85,543	\$ 18,717	\$ 104,260	\$ 15,711
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	411,761	15,707	427,468	83,153
(Increase) Decrease in Receivables	97,312	(530)	96,782	-
(Increase) Decrease in Prepays	(752)	-	(752)	(702)
Increase (Decrease) in Accounts Payable	34,074	2,311	36,385	1,293
Increase (Decrease) in Accrued Liabilities	3,261	-	3,261	743
Increase (Decrease) in Deposits	-	(92)	(92)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 631,199</u>	<u>\$ 36,113</u>	<u>\$ 667,312</u>	<u>\$ 100,198</u>

CITY OF CLAWSON
Statement of Net Position
Fiduciary Funds
June 30, 2017

<u>ASSETS</u>	<u>V.E.B.A. Healthcare Trust Fund</u>	<u>Fire Retirement System Trust Fund</u>	<u>Agency Funds</u>
Cash	\$ -	\$ -	\$ 3,060
Investments, at Fair Value:			
Accrued Income	-	7,201	-
Bonds and Notes	329,214	1,311,160	-
Common Stock	-	2,229,843	-
Total Investments	<u>329,214</u>	<u>3,548,204</u>	<u>-</u>
Total Assets	<u>329,214</u>	<u>3,548,204</u>	<u>3,060</u>
 <u>LIABILITIES</u>			
Due to Other	<u>-</u>	<u>-</u>	<u>3,060</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>3,060</u>
 Net Position Restricted for Pensions	<u>\$ 329,214</u>	<u>\$ 3,548,204</u>	<u>\$ -</u>

CITY OF CLAWSON
Statement of Changes in Net Position
Fiduciary Funds
For the Year Ended June 30, 2017

	<u>V.E.B.A. Healthcare Trust Fund</u>	<u>Fire Retirement System Trust Fund</u>
<u>ADDITIONS</u>		
Investment Income:		
Earnings on Investments	\$ 457	\$ 49,840
Net Appreciation (Depreciation) in Fair Value of Investments	-	363,974
Contributions:		
Employer	<u>60,722</u>	<u>73,000</u>
Total Additions	<u>61,179</u>	<u>486,814</u>
 <u>DEDUCTIONS</u>		
Benefits Paid	46,626	235,629
Administrative Costs	-	56,311
Total Deductions	<u>46,626</u>	<u>291,940</u>
 Net Increase (Decrease)	 14,553	 194,874
 Net Position Restricted for Pensions		
Retirement Benefits:		
Beginning of Year	<u>314,661</u>	<u>3,353,330</u>
End of Year	<u>\$ 329,214</u>	<u>\$ 3,548,204</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Clawson, Michigan, was established in 1940 and covers an area of approximately 2.4 square miles. The City operates under an elected Mayor and City Council, with a full-time City Manager appointed by this body to carry out the policies that it establishes. Services are provided to approximately 13,000 residents in the areas of police and fire protection, building code enforcement, refuse removal, parks and recreation, road construction, street lighting, maintenance, senior housing and water and sewer.

As required by generally accepted accounting principles, these financial statements present the City of Clawson and its component units, entities for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Unit

Downtown Development Authority

The City of Clawson Downtown Development Authority (DDA) was established to promote economic growth and revitalization of the City's business district. The DDA Board is appointed by the City Council and the annual operating budget and any modifications require the approval of the City Council. The DDA has a June 30 fiscal year end.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements – Continued

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Unlimited Tax General Obligation Debt Service Fund – used to account for taxes levied to pay Street Debt.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Governmental Funds – Continued

In addition, the City reports on the following fund types:

The Special Revenue Funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

The Debt Service Funds account for the resources that are legally restricted to expenditures for principal and interest payments on long-term debt of governmental funds.

Capital Project Funds are used to account for the proceeds of long-term borrowings used to fund various projects.

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the following fund types:

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City's enterprise funds include the Water and Sewer Fund, which is reported as a major fund, and the Senior Citizen Housing Fund, which is reported as a nonmajor fund.

Internal Service Funds account for operations that provide services to other departments or agencies of the City on a cost reimbursement basis. As these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental activities* in the government-wide financial statements.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Fiduciary Funds

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary Funds include the following fund types:

The Pension Trust Fund accounts for the activities of the Fire Department Retirement System, which accumulates resources for pension, benefit payments to qualified fire department employees.

The V.E.B.A. Health Care Trust Fund was established to accumulate resources for certain post employment benefit payments to qualified employees.

The Agency Fund is used to account for assets that the government holds for others in an agency capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments for the City, as well as for its component units, are recorded at fair value.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "due to/from other funds"

Advances between funds, as reported in the fund financial statements, are considered 'nonspendable' allocation of fund balance in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. All trade and property tax receivables are shown net of allowance for uncollectible accounts, which are recorded at \$-0- at June 30, 2017.

3. Inventory

Inventories are valued at cost using the first-in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities, and Net Position or Equity – Continued

4. Capital Assets – Continued

Interest incurred during the construction phase of capital assets of business-type activities is included as part of capitalized value of the assets constructed. Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	31
Infrastructure	30-50
Equipment	5-20
Vehicles	5-7

5. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured. The long-term portion of compensated absences related to the governmental funds is a liability recorded in the statement of net position. This liability is composed of employees who retire who are paid for fifty to fifty-five percent of unused sick days upon termination of employment and any unused vacation paid upon termination of employment.

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities, and Net Position or Equity – Continued

6. Long-Term Obligations – Continued

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the statement of net position. Long-term liabilities expected to be financed from proprietary funds are reported as liabilities in those funds.

7. Fund Balance

In accordance with Generally Accepted Accounting Principles, the City's fund balance in governmental funds is classified as follows:

- Non-Spendable – Amounts classified as “non-spendable” include balances in prepaid insurance and retention (\$89,863), which are deemed “non-spendable,” as they cannot be liquidated to spend in the following year, and the long term advance to the DDA (\$60,000).
- Restricted – Equity in Special Revenue Funds (spendable), Capital Projects and Debt Service Funds are restricted to those activities by State law or by resolutions of City Council.
- Committed Fund Balances – Amounts that have been formally set aside by City Council for use for a specific purpose. Commitments are made by resolution of the City Council.
- Assigned Fund balances are developed by City Administration and are generally reviewed and approved by City Council. Expenditures are first applied to “assigned” then to “unassigned” balances.

The City's fund balance policy states that the general fund must have at least 10% of prior year revenues in 'unassigned' fund balance. The City does not have a Budget Stabilization Fund.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

The City follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The City Charter requires two regular council meetings per month. By the second meeting in April, a proposed operating budget must be submitted to the City Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year.
2. A public hearing and adoption of the budget is required by the second meeting in May.
3. On or before June 15, the tax rate must be set and the budget is legally enacted through passage of a budget resolution (general appropriation act).
4. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgets for these funds are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP). The General Fund and Special Revenue Fund budgets are adopted at the activity level.
5. Budget appropriations lapse at year end.
6. The City Council may authorize supplemental appropriations (budget amendments) during the year. In 2017 several budget amendments were made and are reflected in the financial statements.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

B. Compliance with P.A. 621 of 1978

1. Excess of Expenditures over Appropriations in Budgetary Funds

The budgets for the General and Special Revenue Funds are adopted at the activity level; there were no expenditures in excess of budget appropriations.

2. Deficit Fund Balance-There are no City funds in a deficit condition.

C. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts as of June 30, 2017 are as follows:

Cumulative Balance at June 30, 2016	\$ (2,104,794)
Fees Collected in Fiscal Year 2017	208,188
Expenditures in Fiscal Year 2017	<u>(295,714)</u>
Revenues Over (Under) Expenditures	<u>\$ (2,192,320)</u>

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the City is permitted to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund and V.E.B.A. Health Care Trust Fund are also authorized by Michigan Public Act 55 of 1982 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations and certain other specified investment vehicles.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

III. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

Custodial Credit Risk. In the event of a bank failure, the City's deposits may not be recovered. The City's investment policy requires the Finance Director to consider custodial credit risk by utilizing F.D.I.C. insurance coverage and collateralization of deposits. As of June 30, 2017, the City's book balance of its deposits was \$5,126,305; the total book balance was \$5,127,734, due to \$1,429 in cash on hand. The bank balance was \$4,982,644, which was exposed to custodial credit risk as follows:

	<u>Bank Balance</u>
Insured by F.D.I.C.	\$ 1,441,073
Collateralized in the City's Name	3,299,442
Uninsured and Uncollateralized	242,129
Total	<u>\$ 4,982,644</u>

A reconciliation of cash for the primary government follows:

Statement of Net Position:	
Cash and Cash Equivalents	\$ 4,415,262
Restricted Cash	709,412
Fiduciary Funds:	
Agency Funds	3,060
Total	<u>\$ 5,127,734</u>

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Collateralized in DDA's Name</u>
Downtown Development Authority	<u>\$49,274</u>	<u>\$49,274</u>	<u>\$49,274</u>

Interest Rate Risk. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of deposits are as follows:

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Trust Funds:		
Mutual Fund – Bonds	\$ 1,640,374	Not Available
Mutual Funds – Equity	2,229,843	N/A
	<u>\$ 3,870,217</u>	
Component Unit:		
Checking	<u>\$ 49,274</u>	Demand

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

III. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

Credit Risk. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Trust Fund:			
Mutual Fund – Bonds	\$ 1,640,374	Not Rated	
Mutual Funds – Equity	<u>2,229,843</u>	N/A	N/A
	<u>\$ 3,870,217</u>		

Concentration of Credit Risk. The City places no limit on the amount the City may invest in any one issuer. The City has more than 5 percent of its investments in the following:

Trust Fund:	
Equities:	
Comerica Small Cap Index FD	9.41%
Comerica Medium Cap Index FD	7.87%
Comerica S&P Index FD	26.27%
Templeton Global	6.46%
Investment Manager Focused Int.	5.96%
Transamerica Int. Equity	5.95%

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

III. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 719,103	\$ -	\$ -	\$ 719,103
Capital Assets, being depreciated:				
Building and Improvements	10,791,164	73,518	-	10,864,682
Machinery and Equipment	1,126,031	156,803	-	1,282,834
Vehicles	2,256,023	62	-	2,256,085
Infrastructure	26,447,517	48,340	-	26,495,857
Construction in Progress	3,713,772	69,721	-	3,783,493
Internal Service Fund	2,413,206	198,278	-	2,611,484
	<u>46,747,713</u>	<u>546,722</u>	<u>-</u>	<u>47,294,435</u>
Less: Accumulated Depreciation:				
Building and Improvements	(5,303,599)	(438,779)	-	(5,742,378)
Machinery and Equipment	(795,364)	(63,678)	-	(859,042)
Vehicles	(1,351,693)	(59,259)	-	(1,410,952)
Infrastructure	(4,933,554)	(782,656)	-	(5,716,210)
Internal Service Fund	(1,651,528)	(83,153)	-	(1,734,681)
	<u>(14,035,738)</u>	<u>(1,427,525)</u>	<u>-</u>	<u>(15,463,263)</u>
Governmental Activities Capital Assets, net	<u>\$ 33,431,078</u>	<u>\$ (880,803)</u>	<u>\$ -</u>	<u>\$ 32,550,275</u>

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 221,461
Public Safety	113,033
Public Works	816,474
Recreation and Culture	193,404
Charged through Internal Service Funds	83,153
	<u>\$ 1,427,525</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

III. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Asset - Continued

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not Depreciated:				
Land	\$ 54,028	\$ -	\$ -	\$ 54,028
Capital Assets, being Depreciated:				
Senior Citizens Housing:				
Land Improvements	59,512	-	-	59,512
Buildings-Senior Citizens	452,036	1,242	-	453,278
Equipment-Senior Citizens	71,650	1,715	-	73,365
	<u>583,198</u>	<u>2,957</u>	<u>-</u>	<u>586,155</u>
Water & Sewer Fund:				
Buildings-Water Sewer	52,932	-	-	52,932
Infrastructure	11,432,331	-	-	11,432,331
Equipment	189,171	156,899	-	346,070
	<u>11,674,434</u>	<u>156,899</u>	<u>-</u>	<u>11,831,333</u>
Less: Accumulated Depreciation:				
Senior Citizens Housing:				
Land Improvements	(41,785)	(1,623)	-	(43,408)
Buildings-Senior Citizens	(251,053)	(12,884)	-	(263,937)
Equipment-Senior Citizens	(62,300)	(1,200)	-	(63,500)
	<u>(355,138)</u>	<u>(15,707)</u>	<u>-</u>	<u>(370,845)</u>
Water & Sewer Fund:				
Buildings-Water Sewer	(48,330)	(128)	-	(48,458)
Infrastructure	(4,643,741)	(156,298)	-	(4,800,039)
Equipment	(161,064)	(10,932)	-	(171,996)
	<u>(4,853,135)</u>	<u>(167,358)</u>	<u>-</u>	<u>(5,020,493)</u>
Business Activities				
Capital Assets, net	<u>\$ 7,103,387</u>	<u>\$ (23,209)</u>	<u>\$ -</u>	<u>\$ 7,080,178</u>
Intangible Assets (Amortized over 40 years)				
Investment in Community:				
Sanitary/Storm Sewers:				
Cost	\$ 10,292,223	\$ -	\$ -	\$ 10,292,223
Accumulated Amortization	(2,799,542)	(244,402)	-	(3,043,944)
Intangible Assets, net	<u>\$ 7,492,681</u>	<u>\$ (244,402)</u>	<u>\$ -</u>	<u>\$ 7,248,279</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

III. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers

There were no interfund accounts receivables and payables at year end-transfers In and out:

Transfers In	Transfers Out	Amount
General Fund	Senior Citizen Housing Fund	\$ 30,000
Local Street Fund	Major Street Fund	75,000
Sidewalk Fund	General Fund	7,596
		\$ 112,596

Transfers from Major Street Fund to Local Street Fund are amounts allowable under Act 51 to finance local improvements. Transfer from Senior Citizen Housing Fund represents the estimated reimbursements for staff and administrative time.

D. Intangible Assets

The Oakland County Drain Commission has assessed the City of Clawson for the benefit of utilizing the North Arm Relief Drain and the George W. Kuhn Drain. The total cost of the North Arm Relief Drain is \$14,830,305 of which \$2,718,357 (18.3%) is the City of Clawson's portion. The total cost to date of the George W. Kuhn Drain is \$119,690,000 of which the City of Clawson's portion is \$7,573,866 (6.32%). The drains are being amortized over a period of 40 years beginning July 1, 2004.

North Arm Relief Drain	\$ 2,718,357
George W. Kuhn Drain	<u>7,573,866</u>
Total	10,292,223
Less: Accumulated Amortization	<u>3,043,944</u>
Net Intangible Assets	<u>\$ 7,248,279</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

III. DETAILED NOTES ON ALL FUNDS – Continued

E. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Governmental Activities:					
G.O. Bonds	\$ 20,245,000	\$ -	\$ (1,240,000)	\$ 19,005,000	\$ 1,305,000
Act 99 Installment Notes	2,906,231	173,000	(298,428)	2,780,803	204,022
	<u>23,151,231</u>	<u>173,000</u>	<u>(1,538,428)</u>	<u>21,785,803</u>	<u>1,509,022</u>
Compensated Absences	466,261	-	(50,896)	415,365	-
	<u>\$ 23,617,492</u>	<u>\$ 173,000</u>	<u>\$ (1,589,324)</u>	<u>\$ 22,201,168</u>	<u>\$ 1,509,022</u>
Business Type Activities:					
G.O. Bonds	\$ 3,514,420	\$ -	\$ (404,704)	\$ 3,109,716	\$ 417,596
SRF Revenue Bonds	2,814,836	-	(135,000)	2,679,836	140,000
Contract Debt	754,233	-	(144,922)	609,311	144,922
	<u>7,083,489</u>	<u>-</u>	<u>(684,626)</u>	<u>6,398,863</u>	<u>702,518</u>
Compensated Absences	43,782	3,581	-	47,363	-
	<u>7,127,271</u>	<u>\$ 3,581</u>	<u>\$ (684,626)</u>	<u>\$ 6,446,226</u>	<u>\$ 702,518</u>

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the City as of June 30, 2017:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding
Governmental Activities:				
General Obligation Bonds	7	2.0%-3.90%	2034	\$ 19,005,000
Act 99 Installment Loan	3	1.91%-2.8%	2028	2,780,803
Total Governmental Activities				<u>\$ 21,785,803</u>
Business Type Activities:				
G.O. Bonds	6	2.00-4.70%	2029	\$ 3,109,716
SRF Revenue Bonds	1	2.50%	2033	2,679,836
Contract Debt	1	2.00%-5.00%	2022	609,311
Total Business Type Activities				<u>\$ 6,398,863</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

III. DETAILED NOTES ON ALL FUNDS – Continued

E. Long-Term Debt – Continued

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2017 are as follows (net of interest subsidies discussed below):

Year Ended	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2018	\$ 1,642,366	\$ 794,261	\$ 702,518	\$ 147,806
2019	1,669,619	751,057	714,636	130,957
2020	1,662,731	704,441	733,186	113,750
2021	1,515,370	654,105	747,479	96,149
2022	1,563,212	609,571	608,350	79,925
2023-2027	8,058,893	1,710,800	1,690,948	222,343
2028-2032	5,158,612	551,645	986,863	84,125
2033-2034	515,000	28,275	199,836	2,498
	<u>\$ 21,785,803</u>	<u>\$ 5,804,155</u>	<u>\$ 6,383,816</u>	<u>\$ 877,553</u>

Interest Subsidies

The City issued two obligations that are intended to qualify for Federal interest rate subsidies. The Capital Improvement Bonds, Series 2010, are anticipated to qualify for the 45% interest rate subsidies under IRC 1400-U2 (Recovery Zone Economic Development Bonds), while the 2010 Unlimited General Obligation Improvement bonds, are anticipated to qualify for the 35% interest rate subsidies under IRC 54AA (Build America Bonds). The 2010 Capital Improvement Bonds were advanced refunded and are considered retired.

F. Long-Term Component Unit Advances

At June 30, 2017, the General Fund has an advance to the Downtown Development Authority in the amount of \$60,000. The advance is being repaid over the next 5 years.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

III. DETAILED NOTES ON ALL FUNDS – Continued

G. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year, and payable in eight installments through February. Taxes are considered delinquent on March 1, at which time the applicable property is subject to lien and penalty and interest is assessed.

The maximum authorized operating levy for the City is 15 mills. The City's tax levy for the 2016 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

General Operating	10.4469
Refuse	2.9125
Library	1.2852
Voted Debt	7.8000
Voted Operating	<u>4.1163</u>
Total	<u>26.5609</u> mills

IV. OTHER INFORMATION

A. Pension Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees Retirement System of Michigan (MERS) that covers all full-time employees of the City. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member Retirement Board. MERS issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmichigan.com or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Benefits Provided – The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended established and amends the benefit provisions of the participants in MERS. There are three divisions, all closed to new hires; the benefit provisions are summarized on the following page.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – continued

A. Pension Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

a. Plan Description – Continued

Benefit Provisions

1 - General: Closed to new hires

	<u>2015 Valuation</u>
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	3 years
Employee Contributions:	0%
DC Plan for New Hires:	7/1/1999
Act 88:	Yes (Adopted 2/7/1967)

2 - Police/Fire: Closed to new hires

	<u>2015 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	3 years
COLA for Future Retirees:	2.50% (Non-Compound)
Employee Contributions:	3.50%
DC Plan for New Hires:	7/1/2004
Act 88:	Yes (Adopted 2/7/1967)

10- General Non Union: Closed to new hires

	<u>2015 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	3 years
Employee Contributions:	0%
DC Plan for New Hires:	7/1/1999
Act 88:	Yes (Adopted 2/7/1967)

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – continued

A. Pension Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

b. Employees Covered by Benefit Terms

At the December 31, 2016 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently Receiving benefits	61
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	<u>13</u>
Total employees covered by MERS	<u><u>77</u></u>

c. Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Since the plan is closed to new members the city is required to make contributions in "flat amounts". During the year the City made required contributions of \$1,210,725. Employees contributed required contributions of \$23,549.

d. Net Pension Liability

The net pension liability reported at June 30, 2017 was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The December 31, 2016 total pension liability was determined by an actuarial valuation performed as of that date.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – Continued

A. Pension Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

d. Net Pension Liability - Continued

Changes in the net pension liability during the measurement year were as follows:

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2015	\$ 24,308,080	\$ 9,437,553	\$ 14,870,527
Service Cost	109,001	-	109,001
Interest	1,873,467	-	1,873,467
Contributions-Employer	-	1,389,816	(1,389,816)
Contributions-Employee	-	18,645	(18,645)
Net Investment Income	-	1,038,959	(1,038,959)
Benefit Payments, including refunds	(1,888,485)	(1,888,485)	-
Other Changes	-	-	-
Difference Between exp. And Actual	(8,999)	-	(8,999)
Changes in Assumptions	-	-	-
Administrative Expenses	-	(20,539)	20,539
Net Changes	<u>84,984</u>	<u>538,396</u>	<u>(453,412)</u>
Balance at December 31, 2016	<u>\$ 24,393,064</u>	<u>\$ 9,975,949</u>	<u>\$ 14,417,115</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – continued

A. Pension Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – continued

e. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 755,307	\$ -
Differences in Assumptions	915,494	-
Differences in Experience	-	(466,687)
Employer contributions to the plan subsequent to the measurement date	<u>746,658</u>	<u>-</u>
Total	<u>\$ 2,417,459</u>	<u>\$ (466,687)</u>
Net	<u>\$ 1,950,772</u>	

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – continued

A. Pension Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – continued

e. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – continued

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2018	\$ 321,531
2019	321,531
2020	354,160
2021	109,494
2022	48,699
2023	48,699

f. Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%

Mortality rates were based on the RP=2014 Healthy Annuitant Mortality Tables of a 50 percent male and 50 percent female blend with rates multiplied by 105%. For disabled retirees, the 50% Male and 50% Female blend of the RP- 2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study in 2015.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – continued

A. Pension Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

g. Discount Rate

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

h. Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2016, the measurement date, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	58%	5.0%
Global fixed income	20%	2.2%
Real assets	12%	4.2%
Diversifying strategies	10%	6.6%

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – continued

A. Pension Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

i. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 8.00 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent) or one percentage point higher (9.00 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability of the City	\$ 16,777,422	\$ 14,417,115	\$ 12,395,122

j. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report found at www.mersofmichigan.com. The plan's fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – continued

A. Pension Plans – Continued

2. Clawson Fire Department Defined Benefit Plan

a. Summary of Significant Accounting Policies

Method used to value investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

b. Plan Description.

Plan administration. The Clawson Fire Department Pension Board administers the Clawson Fire Department Defined Benefit Plan. – a single-employer defined benefit pension plan that provides pensions for all paid on call fire fighters. Management of the Clawson Fire Department Defined Benefit Plan is vested in the Clawson Fire Department Pension Board which consists of 5 members.

Plan Membership. At July 1, 2017, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	15
Inactive plan members entitled to but not yet receiving benefits	5
Active plan members	<u>25</u>
	<u>45</u>

c. Contributions

The authority to amend contribution requirements rests with the Clawson Fire Department Pension Board. The board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimate amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members. For the year ended June 30, 2017 the City contributed \$15,000.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – Continued

A. Defined Benefit Pension Plan - Fire Department – Continued

2. Clawson Fire Department Defined Benefit Plan – Continued

d. Investment Policy

The pension plans' policy in regard to the allocation of invested assets is established and may amended by the Clawson Fire Department Pension Board by a majority vote of its members. It is the policy of the Clawson Fire Department Pension Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2017.

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	50%
International equity	15%
Fixed income	35%
Real estate	-0-
Cash	-0-
Total	<u>100%</u>

e. Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of is 7.0%.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – Continued

A. Pension Plans – Continued

2. Clawson Fire Department Defined Benefit Plan – Continued

f. Net Pension Liability of the City

Changes in the net pension liability during the year were as follows:

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability(Surplus)</u>
Balance at June 30, 2016	\$ <u>3,546,135</u>	\$ <u>3,353,330</u>	\$ <u>192,805</u>
Service Cost	96,847	-	96,847
Interest	278,140	-	278,140
Contributions-Employer	-	73,000	(73,000)
Net Investment Income	-	413,814	(413,814)
Benefit Payments, including refunds	(235,629)	(235,629)	-
Administrative Expenses	-	(56,311)	56,311
Net Changes	<u>139,358</u>	<u>194,874</u>	<u>(55,516)</u>
Balance at June 30, 2017	\$ <u><u>3,685,493</u></u>	\$ <u><u>3,548,204</u></u>	\$ <u><u>137,289</u></u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – Continued

A. Pension Plans – Continued

2. Clawson Fire Department Defined Benefit Plan – Continued

g. Pension Expense and Deferred Outflows of Resources Related to Pensions

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 71,971	\$ -
Differences in Assumptions	45,791	
Differences in Experience	<u>-</u>	<u>206,359</u>
Total	<u>\$ 117,762</u>	<u>\$ 206,359</u>
Net		<u>\$ 88,597</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2018	\$ 28,005
2019	28,005
2020	(7,769)
2021	(57,445)
2022	(20,293)
thereafter	(59,100)

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – Continued

A. Pension Plans – Continued

2. Clawson Fire Department Defined Benefit Plan – Continued

h. Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	N/A
Salary increases	N/A
Investment rate of return	7.0 percent, net
Mortality rates	1994 Group Annuity Blended Table.

i. Discount Rate-rate used to measure the total pension liability 6.95%.

j. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.95 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.95 percent) or one percentage point higher (7.95 percent) than the current rate:

	1% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
Net Pension Liability(Asset) of the City	\$ 599,659	\$ 137,289	\$ (243,796)

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – Continued

A. Pension Plans – Continued

2. Clawson Fire Department Defined Benefit Plan – Continued

k. Plan benefits

The plan presently provides retirement as well as death benefits. Pension benefits vest after five years of total service, for employees hired before July 1, 2009, and ten years for all others. Employees who retire at age 55 are entitled to a monthly pension payable for life in an amount equal to \$45.00 multiplied by the years of service. Death benefits are based on the present value of accrued benefits per participant and are provided regardless of years of service. The City makes annual contributions to the Plan equal to the amount determined by an actuary. Employee contributions are not allowed.

3. City of Clawson Employees Defined Contribution Plan

a. Plan Description

In April 1999, the City established a defined contribution plan for employees hired after July 1, 1999. The plan is administered by the Michigan Municipal Employees' Retirement System (MMERS) who sponsors the prototype plan. Amendments are developed by MMERS and submitted to the City Council for approval. A defined contribution money purchase pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. Contributions made by the City fully vest after 7 years.

b. Contributions Required and Contributions Made

The City is required to contribute an amount equal to 10% of the employee's gross earnings. Employee contributions on a pretax basis are permitted but not required. The City will match up to 3% of an employee's contribution. During the year, the City's required and actual contributions amounted to \$255,637; the employee contributions were \$68,421.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits

Plan Description – The City provides retiree healthcare benefits to eligible employees upon retirement in accordance with labor contracts. Currently, fifty-four retired employees receive this benefit. At the fund level, the expense is recognized by the City as the payments to the employees are made. During the year, this amounted to \$522,725.

Funding Policy – The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). The City has made no contributions in advance.

Funding Progress – For the year ended June 30, 2017, the City has estimated the cost of providing retiree healthcare benefits through an actuarial study that complies with the requirements of GASB 45. The study computes an annual required contribution that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 1,009,825
Interest on the prior year's net OPEB obligation	-
Less: adjustment to the annual required contribution	-
Annual OPEB cost	1,009,825
Amounts contributed:	
Payments of current premiums	522,725
Advance funding	-
Increase in net OPEB obligation	487,100
OPEB obligation – Beginning of year	3,309,509
OPEB obligation – End of year	\$ 3,796,609

<u>Fiscal Year</u> <u>Ended</u>	<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Annual</u> <u>OPEB Costs</u>	<u>Percentage</u> <u>of ARC</u> <u>Contributed</u>	<u>Net</u> <u>Obligation</u>
6/30/2015	6/30/2013	\$1,886,756	\$1,886,756	37.8%	\$(2,730,333)
6/30/2016	6/30/2016	\$ 970,986	\$ 970,986	40.0%	\$(3,309,509)
6/30/2017	6/30/2016	\$1,009,825	\$1,009,825	51.8%	\$(3,796,609)

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits – Continued

Valuation as of:	<u>June 30, 2016</u>
Actuarial Value of Assets	\$ -
Actuarial Accrued Liability	14,093,576
Unfunded AAL	14,096,576
Funded Ratio	0.0%

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016 calculation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2016 was 30 years.

C. Risk Management

The City of Clawson is a member of the Michigan Municipal Risk Management Authority for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – Continued

D. Risk Management – Continued

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City of Clawson and the pools to which it belongs in any of the past three fiscal years.

E. Jointly Governed Organizations

1. Resource Recovery Authority

The City is a member of the Southeastern Oakland County Resource Recovery Authority (S.O.C.R.R.A.). The City appoints one member of the Authority's governing board, who then approves the annual budget. The board is made up of representatives from twelve member municipalities. These include Berkley, Beverly Hills, Birmingham, Clawson, Ferndale, Hazel Park, Huntington Woods, Lathrup Village, Oak Park, Pleasant Ridge, Royal Oak, and Troy. The City has a 4.54% participation in the Authority.

2. Water Authority

The City is a member of the Southeastern Oakland County Water Authority (S.O.C.W.A.). The City appoints one member to the Authority's governing board, who then approves the annual budget. The board is made up of representatives from eleven member municipalities. These include Berkley, Beverly Hills, Bingham Farms, Birmingham, Clawson, Huntington Woods, Lathrup Village, Pleasant Ridge, Royal Oak, Southfield and Southfield Township. The City has a 4.05% participation in the Authority. The debt of the Authority is being financed by water user fees.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2017

IV. OTHER INFORMATION – Continued

F. Upcoming Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) issued two new pronouncements in June 2015, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which will enhance the note disclosures and schedules of required supplementary information for Other Postemployment Benefit Plans (OPEB). GASB Statement No. 74 will provide information about measures of net OPEB liabilities and an analysis of why those liabilities change from year to year. GASB Statement No. 75 establishes standards for governmental employer recognition, measurement, and presentation of information about OPEB plans. GASB Statement No. 74 will be effective for fiscal years beginning after June 15, 2016 and GASB Statement No. 75 will be effective for fiscal years beginning after June 15, 2017.

G. Self Insured Health Insurance

Effective January 1, 2014, the City terminated its traditional health and dental insurance coverage for substantially all of its employees and retirees, and implemented a self insured plan administered by Blue Cross and Blue Shield of Michigan. The plan has two levels of "stop loss" re-insurance coverage to help mitigate potential claims.

- \$40,000 maximum per employee per plan year
- \$95,820 per month

The following is a summary of the City's liability for claims incurred but not reported.

Incurred claims expenses	\$ 584,393
Less payments	<u>511,393</u>
Claims incurred but not reported claims	<u><u>\$ 73,000</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CLAWSON
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property Taxes	\$ 4,732,000	\$ 4,715,000	\$ 4,709,997	\$ (5,003)
Penalties and Interest	35,000	31,500	30,556	(944)
Property Tax Administration Fee	175,000	189,000	188,897	(103)
Licenses and Permits	176,500	200,500	218,744	18,244
Intergovernmental – State	1,149,400	1,150,500	1,187,495	36,995
Intergovernmental – Local	24,000	24,000	28,909	4,909
Charges for Services	483,500	495,100	506,515	11,415
Fines and Forfeitures	171,000	178,000	190,364	12,364
Franchise Fees	235,000	240,000	240,544	544
Interest Earnings	22,000	22,000	22,092	92
Other Revenues	134,800	195,000	165,643	(29,357)
Total Revenues	7,338,200	7,440,600	7,489,756	49,156
Expenditures:				
General Government:				
City Council	20,035	22,535	19,320	3,215
City Manager	132,002	132,002	131,490	512
Elections	18,810	18,810	16,867	1,943
Finance	81,279	74,839	67,395	7,444
Assessor	89,690	89,690	88,393	1,297
Attorney	115,000	123,400	115,920	7,480
Clerk	193,688	196,461	191,411	5,050
Treasurer	158,387	158,387	154,742	3,645
City Hall	232,139	230,975	229,543	1,432
Planning Commission	71,900	118,250	111,120	7,130
Total General Government	1,112,930	1,165,349	1,126,201	39,148
Public Safety:				
Police	2,106,799	2,088,681	2,068,537	20,144
Fire	286,124	286,124	278,830	7,294
Inspection and Engineering	275,184	302,487	295,714	6,773
Total Public Safety	2,668,107	2,677,292	2,643,081	34,211
Public Works:				
Department of Public Works	443,479	455,610	445,942	9,668
Street Lighting	178,600	194,000	190,319	3,681
Total Public Works	622,079	649,610	636,261	13,349
Health and Welfare:				
Senior Citizens	140,661	152,870	143,594	9,276
Youth Programs	6,200	6,200	6,200	-
Total Health and Welfare	146,861	159,070	149,794	9,276
Recreation and Cultural:				
Parks	209,760	217,323	216,392	931
Recreation	319,999	304,970	283,219	21,751
Historical	27,823	28,035	23,317	4,718
Total Recreation and Cultural	557,582	550,328	522,928	27,400

(Continued)

CITY OF CLAWSON
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Expenditures: (continued)</u>				
Other Functions:				
Unemployment	\$ 2,000	\$ 1,000	\$ 802	\$ 198
Retiree Health Insurance	726,300	788,300	769,341	18,959
Retiree MERS Post Retirement Costs	798,445	798,445	798,443	2
Non Departmentalized Fringe Benefits	373,055	412,300	407,246	5,054
Cable TV/Internet	33,596	33,810	30,513	3,297
Other	32,295	42,599	36,992	5,607
Total Other Functions	<u>1,965,691</u>	<u>2,076,454</u>	<u>2,043,337</u>	<u>33,117</u>
Debt Service	<u>281,094</u>	<u>281,094</u>	<u>281,094</u>	<u>-</u>
Capital Outlay	<u>194,450</u>	<u>309,200</u>	<u>306,532</u>	<u>2,668</u>
Total Expenditures	<u>7,548,794</u>	<u>7,868,397</u>	<u>7,709,228</u>	<u>159,169</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(210,594)</u>	<u>(427,797)</u>	<u>(219,472)</u>	<u>208,325</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	30,000	30,000	30,000	-
Transfers (Out)	-	(7,596)	(7,596)	-
Transfers (Out) - Component Unit	-	(6,750)	(6,750)	-
Total Other Financing Sources (Uses)	<u>30,000</u>	<u>15,654</u>	<u>15,654</u>	<u>-</u>
Net Change in Fund Balance	<u>(180,594)</u>	<u>(412,143)</u>	<u>(203,818)</u>	<u>208,325</u>
Fund Balance – Beginning			<u>2,222,897</u>	
Fund Balance – Ending			<u>\$ 2,019,079</u>	

CITY OF CLAWSON
Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios
MERS Defined Benefit Plan
Last Ten Fiscal Years (schedule is built prospectively upon implementation of GASB 68)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability:			
Service Cost	\$ 106,523	\$ 107,479	\$ 109,001
Interest	1,003,855	1,891,026	1,873,467
Other Changes	878,835	389,584	(8,999)
Benefit payments, including refunds	<u>(1,881,714)</u>	<u>(1,895,586)</u>	<u>(1,888,485)</u>
Net Change in Total Pension Liability	107,499	492,503	84,984
Total Pension Liability, Beginning of year	<u>23,708,078</u>	<u>23,815,577</u>	<u>24,308,080</u>
Total Pension Liability, End of year	<u>\$ 23,815,577</u>	<u>\$ 24,308,080</u>	<u>\$ 24,393,064</u>
Plan Fiduciary Net Position:			
Contributions - Employer	\$ 1,213,709	\$ 1,288,242	\$ 1,389,816
Contributions - Employee	-	-	18,645
Net Investment Income	631,003	(145,734)	1,038,959
Administrative Expenses	(23,024)	(21,638)	(20,539)
Benefit payments, including refunds	<u>(1,881,714)</u>	<u>(1,895,586)</u>	<u>(1,888,485)</u>
Net Change in Plan Fiduciary Net Position	(60,026)	(774,716)	538,396
Plan Fiduciary Net Position, Beginning of year	<u>10,272,295</u>	<u>10,212,269</u>	<u>9,437,553</u>
Plan Fiduciary Net Position, End of year	<u>\$ 10,212,269</u>	<u>\$ 9,437,553</u>	<u>\$ 9,975,949</u>
City's Net Pension Liability - Ending	<u>\$ 13,603,308</u>	<u>\$ 14,870,527</u>	<u>\$ 14,417,115</u>
Plan Fiduciary Net Position as a Percent of Total Pension Liab	42.9%	38.8%	40.9%
Covered Employee Payroll	\$ 894,050	\$ 903,385	\$ 918,970
City's Net Pension Liability as a Percent of Covered Employe	1521.5%	1646.1%	1568.8%

CITY OF CLAWSON
Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios
Fire Department Defined Benefit Plan
Last Fiscal Year (schedule is built prospectively upon implementation of GASB 68)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability:			
Service Cost	\$ 60,620	\$ 96,847	\$ 96,847
Interest	431,009	466,697	278,140
Other Changes	-	(205,835)	-
Benefit payments, including refunds	<u>(184,899)</u>	<u>(222,103)</u>	<u>(235,629)</u>
Net Change in Total Pension Liability	306,730	135,606	139,358
Total Pension Liability, Beginning of year	<u>3,103,799</u>	<u>3,410,529</u>	<u>3,546,135</u>
Total Pension Liability, End of year	<u>\$ 3,410,529</u>	<u>\$ 3,546,135</u>	<u>\$ 3,685,493</u>
Plan Fiduciary Net Position:			
Contributions - Employer	\$ 12,612	\$ 15,000	\$ 73,000
Contributions - Employee	-	-	-
Net Investment Income	71,847	(6,949)	413,814
Administrative Expenses	-	-	(56,311)
Benefit payments, including refunds	<u>(184,899)</u>	<u>(222,103)</u>	<u>(235,629)</u>
Net Change in Plan Fiduciary Net Position	(100,440)	(214,052)	194,874
Plan Fiduciary Net Position, Beginning of year	<u>3,667,822</u>	<u>3,567,382</u>	<u>3,353,330</u>
Plan Fiduciary Net Position, End of year	<u>\$ 3,567,382</u>	<u>\$ 3,353,330</u>	<u>\$ 3,548,204</u>
City's Net Pension Liability - Ending	<u>\$ (156,853)</u>	<u>\$ 192,805</u>	<u>\$ 137,289</u>
Plan Fiduciary Net Position as a Percent of Total Pension Liability	104.6%	94.6%	96.3%
Covered Employee Payroll	N/A	N/A	N/A
City's Net Pension Liability as a Percent of Covered Employee Payroll	N/A	N/A	N/A

CITY OF CLAWSON
Required Supplemental Information
Schedule of City Pension Contributions-MERS
Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 1,493,316	\$ 1,288,242	\$ 1,213,709	\$ 1,133,436	\$ 1,109,388	\$ 1,018,356	\$ 1,013,448	\$ 815,148	\$ 795,988	\$ 668,823
Contributions in relation to the actuarially determined contribution	1,493,316	1,288,242	1,213,709	1,133,436	1,109,388	1,018,356	1,013,448	815,148	795,988	668,823
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 9,189,970	\$ 9,033,385	\$ 8,940,050	\$ 9,644,678	\$ 10,087,486	\$ 13,392,751	\$ 15,595,797	\$ 15,541,458	\$ 17,750,947	\$ 18,111,247
Contributions as a Percentage of Covered Employee Payroll	162.5%	142.6%	135.8%	117.5%	102.0%	73.1%	63.5%	52.9%	45.5%	36.9%

Actuarial valuation information relative to the determination of contributions:
Actuarially determined contribution rates are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates:
Actuarial Cost Method Entry age normal cost
Amortization Method Level percent
Remaining Amortization Period City of Clawson has elected option "B" - which allows "closed" plans to amortize the unfunded on an accelerated method - the expected amortization which commences in fiscal year 7/1/13, is 20 years
Asset Valuation Method 5-year smoothed market
Salary Increases 3.75%
Investment Rate of Return 7.75%
Cost of living adjustments None
Mortality Table 2014 Group Annuity

CITY OF CLAWSON
Required Supplemental Information
Schedule of City Pension Contributions-Fire Pension
Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 73,000	\$ 15,000	\$ 12,336	\$ -	\$ 55,884	\$ 187,849	\$ 175,560	\$ 258,115	\$ 266,118	\$ 245,669
Contributions in relation to the actuarially determined contribution	73,000	15,000	12,612	11,529	60,000	188,000	175,560	258,115	266,118	245,669
Contribution Deficiency (Excess)	\$ -	\$ -	\$ (276)	\$ (11,529)	\$ (4,116)	\$ (151)	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll (due to nature of paid on call fire fighter status, covered payroll not deemed relevant)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Actuarial valuation information relative to the determination of contributions:
 Actuarially determined contribution rates are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates:
 Actuarial Cost Method Individual Entry Age

Amortization Method Level Dollar
 Amortization Period 10 years
 Asset Valuation Method Market value
 Investment Rate of Return 7%
 Projected Salary Increases Not applicable
 Post retirement benefit increases None
 Inflation None
 Mortality Table 1994 Group Annuity

OTHER SUPPLEMENTARY INFORMATION

CITY OF CLAWSON
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

		Debt Service Funds			
	Special Revenue	Park Improv. G.O. Bonds Debt Fund	Library G.O. Bonds Debt Fund	2014 Capital Improvement Fund	Total Nonmajor Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 588,860	17,062	\$ 13,033	\$ 49,158	\$ 668,113
Receivables (net of Allowance for Uncollectibles)	9,813	-	-	-	9,813
Due from State	79,350	-	-	-	79,350
Prepaid Expenditures	22,800	-	-	-	22,800
Total Assets	\$ 700,823	\$ 17,062	\$ 13,033	\$ 49,158	\$ 780,076
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities:					
Accounts Payable	\$ 233,158	\$ -	\$ -	\$ 41,640	\$ 274,798
Accrued and Other Liabilities	23,549	-	-	-	23,549
Total Liabilities	256,707	-	-	41,640	298,347
Fund Balance:					
Non Spendable:					
Prepaid Expenditures	22,800	-	-	-	22,800
Restricted:					
Special Revenue Funds	421,316	-	-	-	421,316
Debt Service	-	17,062	13,033	-	30,095
Capital Projects	-	-	-	7,518	7,518
Total Fund Balance	444,116	17,062	13,033	7,518	481,729
Total Liabilities and Fund Balance	\$ 700,823	17,062	\$ 13,033	\$ 49,158	\$ 780,076

CITY OF CLAWSON
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Special Revenue	Debt Service Funds		2014 Capital Improvement Fund	Total Nonmajor Governmental Funds
		Park Improv. G.O. Bonds Debt Fund	Library G.O. Bonds Debt Fund		
Revenues:					
Property Taxes	\$ 1,479,241	\$ 270,960	\$ 186,073	\$ -	\$ 1,936,274
Intergovernmental-State	844,696	-	-	-	844,696
Intergovernmental-Federal	7,259	-	-	-	7,259
Interest	643	6	361	161	1,171
Other	126,006	-	-	-	126,006
Total Revenues	<u>2,457,845</u>	<u>270,966</u>	<u>186,434</u>	<u>161</u>	<u>2,915,406</u>
Expenditures:					
Highways, Streets, Sidewalks, and Other Maintenance	1,054,636	-	-	-	1,054,636
Sanitation	1,018,396	-	-	-	1,018,396
Recreation and Culture	451,220	-	-	-	451,220
Debt Service:					
Principal	-	135,000	160,000	-	295,000
Interest and Other Charges	-	139,044	27,569	-	166,613
Capital Outlay	3,920	-	-	69,721	73,641
Total Expenditures	<u>2,528,172</u>	<u>274,044</u>	<u>187,569</u>	<u>69,721</u>	<u>3,059,506</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(70,327)</u>	<u>(3,078)</u>	<u>(1,135)</u>	<u>(69,560)</u>	<u>(144,100)</u>
Other Financing Sources (Uses):					
Transfers In	82,596	-	-	-	82,596
Transfers Out	(75,000)	-	-	-	(75,000)
Total Other Financing Sources (Uses)	<u>7,596</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,596</u>
Net Change in Fund Balances	(62,731)	(3,078)	(1,135)	(69,560)	(136,504)
Fund Balance – July 1	506,847	20,140	14,168	77,078	618,233
Fund Balance – June 30	<u>\$ 444,116</u>	<u>\$ 17,062</u>	<u>\$ 13,033</u>	<u>\$ 7,518</u>	<u>\$ 481,729</u>

CITY OF CLAWSON
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017

	Major Street	Local Street	Library	Refuse Collection	CDBG	Sidewalk	Total Nonmajor Special Revenue Funds
<u>ASSETS</u>							
Cash and Cash Equivalents	\$ 205,054	\$ 126,252	\$ 160,110	\$ 97,444	\$ -	\$ -	\$ 588,860
Receivables (net of Allowance for Uncollectibles)	9,322	-	-	491	-	-	9,813
Due from State	56,303	23,047	-	-	-	-	79,350
Prepaid Expenditures	14,546	3,511	4,743	-	-	-	22,800
Total Assets	\$ 285,225	\$ 152,810	\$ 164,853	\$ 97,935	\$ -	\$ -	\$ 700,823
<u>LIABILITIES AND FUND BALANCE</u>							
Liabilities:							
Accounts Payable	\$ 139,280	\$ 5,916	\$ 11,420	\$ 76,542	\$ -	\$ -	\$ 233,158
Accrued Liabilities	4,575	4,434	14,540	-	-	-	23,549
Total Liabilities	143,855	10,350	25,960	76,542	-	-	256,707
Fund Balance:							
Non Spendable:							
Prepaid Expenditures	14,546	3,511	4,743	-	-	-	22,800
Restricted:							
Special Revenue Funds	126,824	138,949	134,150	21,393	-	-	421,316
Total Fund Balance	141,370	142,460	138,893	21,393	-	-	444,116
Total Liabilities and Fund Balance	\$ 285,225	\$ 152,810	\$ 164,853	\$ 97,935	\$ -	\$ -	\$ 700,823

CITY OF CLAWSON
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017

	<u>Major Street</u>	<u>Local Street</u>	<u>Library</u>	<u>Refuse Collection</u>	<u>CDBG</u>	<u>Sidewalk</u>	<u>Total Nonmajor Special Revenue Funds</u>
Revenues:							
Taxes	\$ -	\$ -	\$ 423,001	\$ 944,390	\$ -	\$ 111,850	\$ 1,479,241
Intergovernmental-State	572,966	233,303	17,354	21,073	-	-	844,696
Intergovernmental-Federal	-	-	3,339	-	3,920	-	7,259
Interest Income	125	64	191	263	-	-	643
Other	28,518	38,662	42,764	16,062	-	-	126,006
Total Revenues	<u>601,609</u>	<u>272,029</u>	<u>486,649</u>	<u>981,788</u>	<u>3,920</u>	<u>111,850</u>	<u>2,457,845</u>
Expenditures:							
Highways, Streets, Sidewalks and Other Maintenance	569,929	344,781	-	-	-	139,926	1,054,636
Sanitation	-	-	-	1,018,396	-	-	1,018,396
Recreation and Culture	-	-	451,220	-	-	-	451,220
Capital Outlay	-	-	-	-	3,920	-	3,920
Total Expenditures	<u>569,929</u>	<u>344,781</u>	<u>451,220</u>	<u>1,018,396</u>	<u>3,920</u>	<u>139,926</u>	<u>2,528,172</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>31,680</u>	<u>(72,752)</u>	<u>35,429</u>	<u>(36,608)</u>	<u>-</u>	<u>(28,076)</u>	<u>(70,327)</u>
Other Financing Sources (Uses):							
Operating Transfers In	-	75,000	-	-	-	7,596	82,596
Operating Transfers Out	(75,000)	-	-	-	-	-	(75,000)
Total Other Financing Sources (Uses)	<u>(75,000)</u>	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,596</u>	<u>7,596</u>
Net Change in Fund Balance	(43,320)	2,248	35,429	(36,608)	-	(20,480)	(62,731)
Fund Balance – July 1	<u>184,690</u>	<u>140,212</u>	<u>103,464</u>	<u>58,001</u>	<u>-</u>	<u>20,480</u>	<u>506,847</u>
Fund Balance – June 30	<u>\$ 141,370</u>	<u>\$ 142,460</u>	<u>\$ 138,893</u>	<u>\$ 21,393</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 444,116</u>

